

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)
501(c)(3) REVENUE BOND FINANCING PROGRAM**

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	USC Health Science Building, LLC (Borrower)	Amount Requested:	Not to exceed \$45,000,000
Applicant Description:	A Delaware nonprofit limited liability company organized to assist the charitable and educational purposes of the University of Southern California (University or USC) to access financing for the project.	Date of Board Meeting:	June 22, 2010
		Resolution Number:	10-24
		Type of Bonds:	New Issue
Project Site:	2001 North Soto Street, Los Angeles, CA 90032	Prepared by: Derrick Moore	
Project Description:	The project (Project) involves the demolition of an existing 95,000 square foot structure situated on a 5.34 acre parcel, followed by site work and construction of a three story 120,000 square foot building with an adjacent courtyard and exterior multipurpose space.		
Uses of Bond Proceeds:	Bond proceeds will be used to pay the costs of the Project, capitalized interest and issuance costs of the bonds.		
Public Benefits:	The Health Science Building will aid in the advancement of the mission of the USC Health Sciences Campus by creating much needed space for clinical and academic research, education and administration. It will also create valuable training and conferencing space for use by the USC Health Sciences Campus educational, outreach, emergency, administrative and research programs. This new facility is expected to create 100 new jobs.		
Financing Structure:			
Type of Issue:	Publicly-offered fixed-rate securities in minimum denominations of \$5,000 or any integral multiple thereof.		
Tax Status:	Tax-exempt 501(c)(3) bonds.		
Term:	21.5 years.		
Credit Enhancement:	None.		
Credit Rating:	Expected rating is AA+ from Standard & Poor's Rating Services and Aa1 from Moody's Investors Service based on the financial strength of the University of Southern California.		
Total Est. Sources of Funds:		Total Est. Uses of Funds:	
Bond Par Amount	\$36,410,000	Project Costs	\$36,124,764
Premium	2,398,140	Capitalized Interest	1,955,176
		Issuance Costs	728,200
TOTAL SOURCES	\$38,808,140	TOTAL USES	\$38,808,140
Financing Team:			
Bond Counsel:	Hawkins Delafield & Wood LLP		
Underwriter's Counsel:	Nixon Peabody LLP		
Underwriter:	J.P. Morgan Securities Inc.		
Trustee:	Bank of New York Mellon Trust Company, N.A.		
Staff Recommendation:			
Staff recommends approval of Resolution 10-24 for an amount not to exceed \$45,000,000 for USC Health Science Building, LLC.			

BACKGROUND AND HISTORY

USC Health Science Building, LLC (Borrower) is a Delaware limited liability company formed for nonprofit purposes on May 20, 2010. The Borrower was organized to assist the charitable and educational purposes of the University of Southern California (University or USC) by facilitating the financing of the project.

Board Members - USC Health Science Building, LLC	
Fred Weiss, NHREFCO	President
Robert Abeles, CFO, USC,	Vice President
Todd Dickey, Sr. VP Admin, USC	Secretary
Howard Feuerstein, NHREFCO	Board Member

The sole member of the Borrower is National Healthcare, Research and Education Finance Corporation (NHREFCO), a Texas non-profit corporation formed on January 12, 2000, to support the charitable and educational purposes of hospitals, academic medical centers and medical research organizations described in Section 501(c)(3) of the Internal Revenue Code by providing or facilitating low-cost financing of facilities and infrastructure for such organizations. For federal income tax purposes, NHREFCO and the Borrower will be considered one in the same entity. NHREFCO is governed by a five member Board of Directors consisting of three Class A Directors and two Class B Directors. The Class A Directors are elected by the affirmative vote of a majority Class A Directors, and the Class B Directors are elected by NHREFCO's supported organizations.

Board Members – National Healthcare, Research and Education Finance Corporation	
Fred Weiss	Board Member
John Cox	Board Member
Kevin Lyles	Board Member
Myra Tanita	Board Member
Steve Glass	Board Member

The Borrower is also governed by a five member board of directors consisting of two Class A Directors, two Class B Directors and an independent Director. Class A Directors and Class B Directors serve for a term of three (3) years, while the Independent Director serves until such Independent Director's death, resignation, failure to qualify or removal by the unanimous vote of the Class A Directors and Class B Directors. Class A Directors are selected and appointed by NHREFCO and Class B Directors are selected and appointed by the University; provided, however, that no Class A Director will be permitted to be an officer, director or employee of the University or any entity that is controlled by, controls or is under common control with, the University. The Independent Director must be a resident of the greater Los Angeles, California metropolitan area and may not be an officer, director or employee of the University or NHREFCO or any entity that is controlled by, controls or is under common control with, the University or NHREFCO other than the Borrower.

The University is a nonprofit, coeducational university with its principal campus located near downtown Los Angeles, California. The University currently has the largest enrollment of any

private university in California. In the fall of 2009, 16,384 undergraduate and 17,024 graduate, professional and other students were enrolled at the University.

The Project will be located on the USC Health Sciences Campus (HSC), a major center for biomedical research, especially in the fields of cancer, gene therapy, the neurosciences and transplantation biology. The HSC, northeast of downtown Los Angeles, is home to the Keck School of Medicine of USC, the School of Pharmacy, three major teaching hospitals and programs in occupational science and occupational therapy, biokinesiology and physical therapy. Anchored by USC + Los Angeles County Medical Center, the HSC comprises the following centers of health research, education, and care delivery:

- LA County General Hospital
- Women's & Children's Hospital
- Doheny Eye Institute
- USC/Norris Cancer Institute
- USC University Hospital
- Rand Schrader AIDS Clinic

The University has also established the USC Stevens Institute for Innovation (USC Stevens) to facilitate the translation of inventions and discoveries into practice. USC Stevens has been designated the university's intellectual property authority and the central resource for technology transfer and licensing.

PROJECT DESCRIPTION

The project involves demolishing an existing 95,000 square-foot structure situated on a 5.34 acre parcel, followed by site work and construction of a three story 120,000 square-foot building providing a combination of facilities for: (a) research, including offices for health sciences researchers and administrators; (b) education, including a conference/training facility, offices for health sciences educators and administrative offices including those used for grant related services; (c) recreation, including a fitness center available to HSC employees and students; and (d) commercial activities, which include a café open to students, campus employees and the public (Project) (see Appendix A – Project Pictures). The Project encompasses the delivery of core and shell space, including finished ground floor lobby and code-compliant restrooms on all three floors, along with \$12 million of bond proceeds to be used for tenant improvements. An existing 12,000 square-foot building will remain on site.

FINANCING STRUCTURE

USC Health Science Building, LLC is requesting approval for the issuance of bonds in an amount not to exceed \$45,000,000 (Bonds). It is expected that the Bonds will carry ratings of at least "AA+" from Standard & Poor's (S&P), and at least "Aa1" from Moody's Investors Service (Moody's) based on the financial strength of the University and its commitment to enter into a long term facility lease with an unconditional obligation to make rental payments that will be used by USC Health Science Building, LLC in paying principal and interest on the Bonds.

The financing has been structured by the University to involve a lease lease-back procurement method enabling the University to secure the benefit of the Project on favorable terms with respect to cost, schedule and developer's expertise. The University has leased the Project site to Soto Development Associates, LLC (Soto), pursuant to a ground lease, and Soto and the University will enter into a facility lease for the Project. Soto has also entered into agreements for the construction of the Project, as well as a tenant improvement agreement with the University for the build-out of tenant improvements for the Project. Concurrently with the issuance of the Bonds, Soto will assign all its rights, titles and interests under the leases and construction-related agreements to the Borrower.

The Borrower's use of the site will be limited to the construction, maintenance, use and operation of the improvements comprising the Project. The University's lease payments under the facility lease (base rent payments) will be in an amount of the Borrower's obligation to pay principal and interest on the Bonds. The University will be unconditionally obligated (regardless of completion or occupancy of the Project) to make base rent payments during the time the Bonds are outstanding. In lieu of the University making its base rent payments to the Borrower, the Borrower will assign its right to receive base rent payments to the Bond trustee as security for the payment of the Bonds, and the University will make its base rent payments to the Bond trustee.

The Borrower's obligation to make loan payments under the loan agreement between the I-Bank and the Borrower is limited to making loan payments from the base rent payments it receives from the University under the facility lease. .

In no event shall the Bonds constitute a pledge of the faith and credit of the State or any political corporation, subdivision or agency of the State, and neither the State nor any political corporation, subdivision or agency of the State shall be liable to make any appropriation for the repayment of the Bonds. The Bonds shall constitute a special obligation of the I-Bank, payable solely from revenues or other sources provided for in the loan agreement between the I-Bank and the Borrower.

PUBLIC BENEFITS

The Project will play a critical role in the mission of the HSC by creating much needed space for the furtherance of clinical and academic research, education and administration by consolidating the operations of key units that are currently located in separate locations by co-locating grant writers, researchers and other support staff. The Project will also create valuable training and conferencing space for use by HSC educational, emergency, and outreach programs. The Project is designed to meet LEED (Leadership in Energy and Environmental Design) certification criteria.

The Project will serve as a gateway property, creating a new, active connection and linkage between an industrial corridor and the adjacent HSC by rehabilitating an underutilized property and creating outdoor space and pedestrian connections between the campus and an adjacent existing park for use by all HSC faculty, staff, and students.

The Project is expected to accommodate approximately 200 employees, of which approximately 100 will be new jobs. In addition, the consolidation of current programs and staff from other HSC buildings into the Project will create additional space for other HSC

programs to expand and facilitate the creation of new jobs above and beyond the jobs expected to be created by the Project.

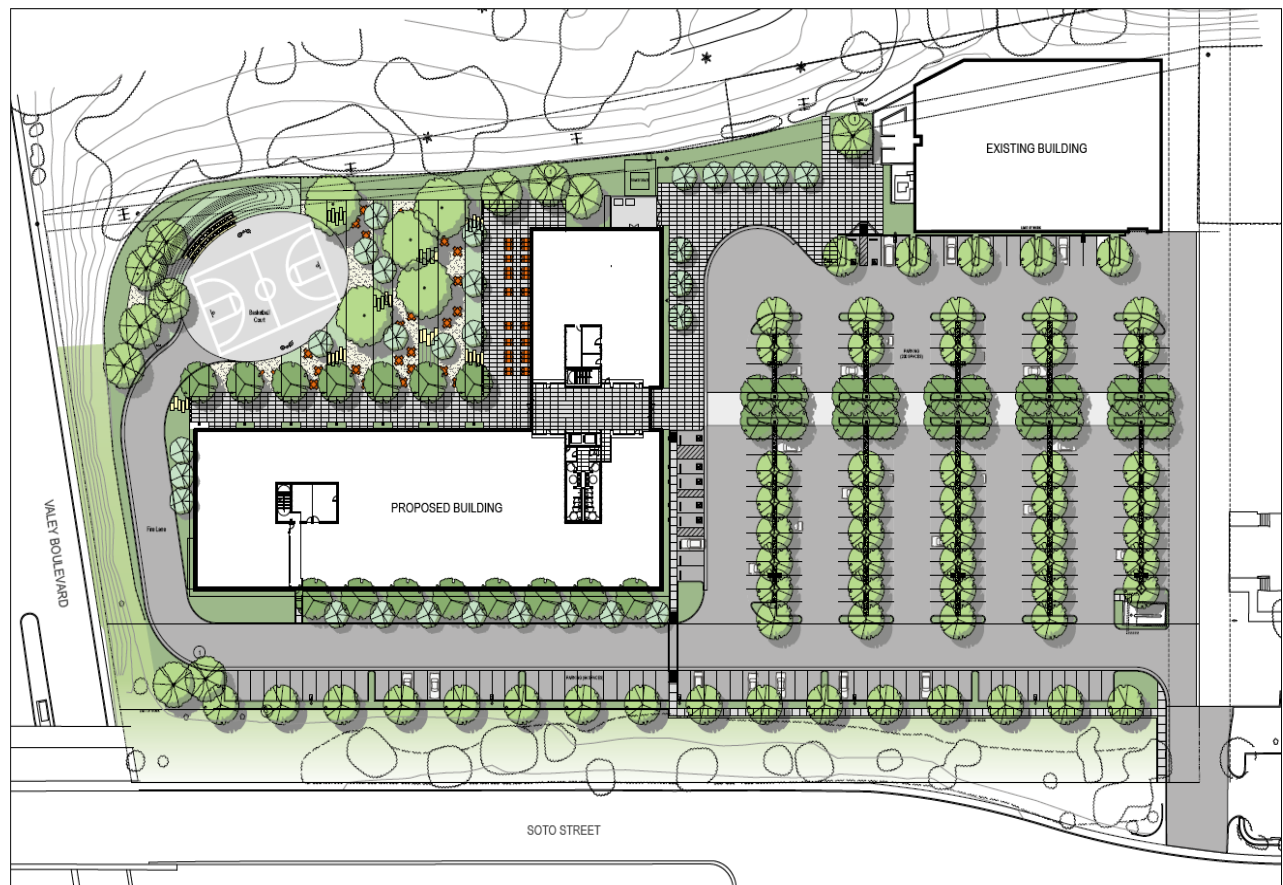
OTHER PROJECT DATA	
OTHER PROJECT DATA PROJECT PERMIT STATUS	
Compliance with local land use and zoning	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO, Describe:
Local approvals and permits obtained (other than construction permit)?	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO, Describe:
TEFRA	
Date of TEFRA	June 9, 2010
Publications	<i>Sacramento Bee</i> <i>Daily News</i>
Oral/Written Comments	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
LEGAL QUESTIONNAIRE	
Completed?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES
Issues?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
ELIGIBILITY REVIEW	
Borrower meets all of the I-Bank eligibility criteria? <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	1. Project is in the State of California. 2. Borrower is capable of meeting the obligations incurred under the proposed loan agreement and tax agreement and, in particular as to its loan repayment obligations which secure the Bonds as a result of having met the requirements for the ratings of AA+/Aa1 on the Bonds, based on the financial strength of USC and USC's obligation to make rental payments that will be used by the Borrower to pay the principal and interest on the Bonds. 3. Payments to be made by the Borrower to the I-Bank under the proposed financing agreements are adequate to pay the current expenses of the I-Bank in connection with the financing and to make all the scheduled payments. 4. The proposed financing is appropriate for the Project. 5. Borrower has represented that the Project is consistent with any existing local or regional comprehensive plans.
INDUCEMENT CERTIFICATE	
Completed?	<input type="checkbox"/> NO <input type="checkbox"/> YES Certificate No.: <input checked="" type="checkbox"/> N/A Date:

RECOMMENDATION

Staff recommends approval of Resolution 10-24, for an amount not to exceed \$45,000,000 for the USC Health Science Building, LLC.

APPENDIX A - PROJECT PICTURES





USC HEALTH SCIENCE BUILDING

SITE PLAN
JUNE, 2010
SCALE: 1/8"=1'-0"

Health Sciences Administrative Office Building Site Plan.



Artist's rendering of Health Sciences Administrative Office Building.